

Pearson

International Educational Visit

Marjorie Scardino

Chief Executive

Is this everybody? This is enough.

Hello, thank you for coming out to hear about the International Educational Visit. That thing on your chair is a gift from John Fallon, and so all will be revealed about that, if you haven't already read about it in the newspaper, when he talks.

Just a word about why we're doing this. Pearson, as you know, is the largest education business in the world, but we're the largest partly because our U.S. School and Higher Ed businesses are very large. But if you look at world demographics and the changes that are happening, Europe and America are getting older and getting smaller. In 15 years half the world is going to live in Asia. A huge proportion of those people are going to be under 25 years old. That tells you that having an international education business outside the major developed world is a good idea.

The International Education business is a very important part of our growth prospects for the future as well. The International business, which you will hear about five times today, is \$1.2bn, about three times our closest competitors' business, is about the size of the Financial Times or Penguin. It's actually a little bit bigger than the Financial Times right now. So, it is very, very important to us. And global markets are growing very fast, and so it is going to be an important thing going forward. So, I think it was good of you to come.

To help talk about it today are two people. Will Ethridge, a couple of years ago Will Ethridge was doing a fantastic job running our U.S. Higher Education business. He got to go home on weekends and saw his parents, he saw his family. He was having a great time, but he had done such a great job of growing ahead of the market for six years that I asked him if he wouldn't take on International too. He said no, but he's doing it anyway. And he has done the same thing for International that he did to Higher Ed in America. He's brought the wonderful product creation, sales skills and technology to bear on our International business.

And helping him talk about this is also John Fallon. Most of you know John Fallon. He was the Director of Communications for Pearson for a long time. It's turned out that John is fantastic as a business leader as well. Almost as good as he was as our Communications person. He's done a great job running our Education business in Europe, Middle East and Africa. He's not only made it more profitable, but he has brought in a lot of new ideas and he is the one who is leading our fastest growing market.

So, they're going to be here. John does this not only by putting his feet up on his desk and thinking, as he usually does, but going out and being the number one sales man, and really making things happen. So, I think he'll have a lot of examples that will impress you.

So, I'm going to turn over to Will and John, and then we'll answer questions afterwards.

Will Ethridge

President, Higher Education and International

Thank you Marjorie. Let's go over this, the agenda, what we're going to do today. I'm going to give you an overview of the overall business. Then I'm going to turn it over to John, and he's going to talk about EMA, Europe, Middle East and Africa. It represents over a half of our total International business, and it also serves as a good case study of our capabilities across Pearson. Then I'm going to come back briefly and talk about some of our operational and financial goals, and then Marjorie, John and I will take questions.

The first thing you should know about our International business is that it's large and diversified. The pie chart on the left shows sales by region. John's obviously going to cover the right hand side, Africa, U.K, Europe.

Let me touch briefly on some of the other regions. Latin America was a trouble spot for us a few years ago, but we put in new management, we brought some new practises to Latin America. It was barely making money a few years ago, now it's solidly profitable, and over the next several years we see our sales growing 10% on an annual basis, and profits growing around 30%.

Canada is a really solid region for us - sales last year of around \$220m. We are the leader in higher education in Canada, and we're number two behind Confident School. Confident is number one largely because of acquisitions, but we're gaining share. We just launched a very exciting math product that's gained a lot of share. And margins are over 15% in Canada.

Asia is a very important. It's actually our most profitable region with margin over 17%, and is our second largest region behind Europe, Middle East and Africa. We are the clear leader in English language training and higher education. And we also have strong school publishing operations in Japan. We bought a local school publisher Kirihara a few years ago. In Hong Kong we have great share and Malaysia.

We've also been in China far longer than our competitors. The Longman brand in ELT and the Prentice Hall brand in Higher Ed are well respected and Pearson is well positioned to take advantage of the growth in China, as well as the opening of markets in publishing.

Moving to the pie chart on the right, you see our sales by product line. Our overall sales, as Marjorie said, are \$1.2b. But what's really exciting is that we are the clear leader in each of the segments, Higher Education, ELT, Testing and Professional.

Now, to provide you with some flavour and facts regarding Pearson's reach and impact we have a couple of slides for you. I'm sorry, before I do that, this slide show's how we stack up against the competition. Basically, we have two types of competitors. We have the local competitors. We think they're going to have a pretty hard time competing against our technology, and marketing and sales reach. And then we have three global publishers, Thomson, McGraw-Hill and Harcourt, and as Marjorie said, we're at almost three times the size of the nearest competitor. And we'll talk about our competitive advantages in a moment.

Now, as I said, we want to give you just a sense of our business and the incredible reach that Pearson has. This year we just won a \$7m tender to rollout primary school books in Ghana. 250,000 students will, in 96 countries, will take the GMAT test in our testing centres around the world. This contract runs until 2003 and during that period it'll be worth \$200m.

This year 9 million students in Latin America will be using our materials, ranging from ELT books to higher education text. Four out of five, four out of five students in Hong Kong learn English from our books, and this is the one student who isn't.

We also publish numerous global best sellers. For example, Side by Side. It's just one example of the many ELT global franchises we publish. This book was published almost 30 years, somewhere between 25 and 30 years ago. It sold 25 million copies. It's still selling several hundred thousand copies a year now. So, these books when you get them launched not only do well for a couple of years, they do well for a long, long time.

That's also true in higher education publishing. Both ELT and Higher Ed, one of the exciting things about those businesses is that these books can last for a long time. Here you have Neil Campbell's biology text book, which is the number one book in the U.S., but it's also the number one book outside the U.S. for introductory college level biology.

And probably the best example of a book that was originally published in the United States, but which has global appeal, is Philip Kotler's marketing textbook. Some of you probably studied from this textbook. It is by far the most widely used business book in the world. It's used in 52 countries and translated in 23 languages. It's just a phenomenon.

But we're not just a textbook publisher. We're also a digital leader. We've talked about this a lot. One example closer to home, 10,000 U.K. primary schools will be using one of our digital products this year. That represents 50% of the market. And this year three million GSCE A-Level exams will be marked on screen by Edexcel.

So, now that you have some sense of our international breadth and reach, let's take a closer look at the opportunities for Pearson in International Education.

First, it's just a big, big market. 1.3bn people are enrolled full-time in education. But as big as the market is, it's going to grow because too many people in the world do not have education. That's one of the themes that Marjorie's talking about. That education has become democratised in the developed world, but less so in areas like the Middle East and Africa. So, we see this big growth in education not only in the U.S. and Europe, but more so outside of those regions.

Another big trend, and one that will really help Pearson, 2bn people will learn English over the next 10 years.

And because of all these factors, the worldwide market for education publishing is estimated by PricewaterhouseCoopers at \$100bn.

So, it's a great opportunity. And we believe Pearson is uniquely positioned to take advantage of this opportunity. And I think there are three key reasons why we're confident of our prospects.

First, we have the scale and we are the market leader in all segments. Second, we've been working very, very hard over the last several years to rationalise our assets, and to bring cohesion to our international units, and add value. Marjorie talked about how we've aligned the U.S. with the international units. And we've been able to really scale, not just things like back office and systems, but more importantly expertise, innovation. We can do things in international markets that haven't been seen, and it's a big advantage for us in terms of driving share. And finally, we think that the global trends, let me just touch upon some of these in a little more depth.

Our basic strategy is our global and local approach. What does that really mean? What that means globally is we can give this great content, and this is especially true with Higher Education and ELT, and this content will travel around the world. It helps our margins. It also helps us drive share.

In School, you don't really have the content travel around the world, but what does travel around the world is our technology leadership. And we're able to bring that combination of technology and content to markets that haven't seen it. So, we have two great global businesses in ELT and Higher Education and in School Publishing we have the advantage of our global capabilities in technology.

But, we're also local. So, it is a big advantage over local publisher, but it is a big advantage over the global publisher is that our reach is bigger, we have more local knowledge, better customer relationships. So, there's that global-local combination. That global-local combination also factors into talent. Not only are we able to recruit better and talented employees, but we're able to recruit better authors. The authors want that reach so that they can reach more markets. It's a huge structural advantage.

For our local employees, they benefit from the sharing of best practises, our global training programmes. Pearson's a laboratory for excellence in publishing.

And then the bottom slide, we share systems. We get huge cost savings as well as better systems and we use those savings to put in the profits, and we use those savings to invest more than our competitors in sales and marketing.

Now let's talk about some of the trends. First of all, there's this rapid growth in school enrolments around the world... and here's some data for you. In the region there is rapid growth is because it's tied to jobs, it's tied to earning power. And here's some data. Basically, on the left you see employment ratio and, obviously, if you have a higher education degree you're more likely to be employed. And as you go down, you're more likely to be unemployed.

The relative earnings, the gap between someone with a higher education degree and someone who doesn't have a higher education degree is going up with each decade. People get that. Individuals get that, so they're investing in higher education. Obviously, this is great news for our Higher Education business.

And on the right, you basically have seen the growth of adults, who have a degree. It's gone from 17.8% of the adult population in 1991, and it's gone up to 23.4% in 2002. And I think that growth will be more dramatic going forward. And you can see how that is playing out across a lot of countries.

And one of the things that we are excited about is that participation rates that you see in the United States most other countries don't have that, but they're trying to catch up the United States. So, the number of people who will pursue higher education is going to grow around the world. What that means in terms of overall growth is that we think, and PricewaterhouseCoopers says, that the overall market will grow at a compound annual growth rate of around 5% over the next several years.

Now, let's look at some of the segments that make up our overall business. Let's start with Higher Ed.

The trends I spoke about, the growth of education, English as a global language, and the impact of technology, all of these trends really favour our Higher Education business. On the left you see the make up of our overall business. In the U.S. we're over \$1bn, and outside the U.S. we're \$300 million and we think that's going to grow, because of the rising participation rates. The impact of technology is going to be really important. In places like China, Asia and Africa, let's go there right now, but certainly Asia, they really have made a commitment to increase the number of people going to higher education. But they just can't build all the schools, and so they're really going to be aggressive about distance learning and technology, and that really plays into our advantage. And then the use of English and the U.S. style curriculum. We're in a global world that people want to learn about the U.S. They really are adopting the U.S. style curriculum in a lot of countries. So, our books really travel well overseas.

In ELT we are the global leader and, obviously, the growing use of English is clearly good news. We publish under the Fisch & Longman imprint. Longman is a very well respected name in ELT publishing. And we publish out of four publishing centres. In the U.S. publishes U.S. style English. In the U.K. obviously British English, and then we have Spain and Hong Kong which do a lot of regional publishing.

We also have very strong local presence in Mexico, Brazil, Italy, Poland, you can read the countries here. But we're very focused in those countries where the demand is strong and where the economic conditions are good, and where we have a strong competitive advantage. And that global local strategy that I was talking about, which plays out in higher education, really plays out in ELT publishing because people want that global credibility. They want the Longman name. They want those global franchises. It gives us a big advantage over the local publishers, because we are the pre-eminent English publisher. You want to learn English from a pre-eminent publisher, quality will account. But local responsiveness, teacher support, are the kinds of support we provide. That counts as well. And there we have a big advantage over the global publishers like Oxford. So, we are uniquely positioned. We have better products more credibility than the local publishers and we have more teacher support, more sales reps on the ground than the global publishers. Nobody has that unique capability as Pearson. So, we're going to grow very well with the global growth of English.

In School Publishing, that's over \$200m business for Pearson. We are around the world but we're very focused. And, basically, what we do is we look at the demographics, we look at the economic political conditions in a country and then we look at where we can win. In some areas, like Canada, we publish across the board. In Japan we're really focusing on English, where we could really have

a strong competitive advantage. And in each of these countries we are leveraging Pearson's leadership in technology. What we call the teach and learn product and services strategy. The combination of content, plus assessment, being able to diagnose the student's needs, strong teacher support. Again, we're with so many local publishers and that's really what we're up against, obviously. They just can't match that. And so, we're taking a very targeted approach to School Publishing, and we really combine credibility of the world's largest and most respected educational publisher, plus innovation.

Our last segment is Professional. And here we've made a lot of changes. And we have two segments to our Professional business. We have Professional Publishing and we have Professional Testing. Both businesses a few years ago were really tethered to technology. So, our Professional business was really a professional computer publishing business. And it was great when the boom was going on, and then it ended, and we really had to make a lot of changes. Well, the good news is that we've gone through the rough seas. We've weathered the storm. During that time we've maintained good margins. We've grown share and we've innovated by moving more of our portfolio to digital products like our Safari books on-line.

We're also expanding into business publishing and digital lifestyles. In business publishing we, last year, signed a creative working press. It's off to a very strong start and our business publishing line is doing very well. So, in the few areas where we did not have high share, it was annoying because we had a really high share in the College Business Publishing, and it made sense to have a strong Professional Business Publishing. And so, we're going after companies like [Wyoema], Briar Hill and it really plays to our strengths.

In Professional Testing we were also tethered to technology, most of our business was a company called View. They were heavily leveraged on technology simplification. Again, we transformed the business, we've got new contracts like the driver's license contract in the U.K., the GMAT contract, I talked about, and now we are getting great, great sales growth out of our Professional Testing business. So, it's a good example of how Pearson had to deal with the market conditions, transform the business and are creating new sources of growth.

So, now that you have an overall view of our business, let me turn it over to John, and he'll talk about Europe, Middle East and Africa.

John Fallon

Chief Executive, Pearson Education for Europe, Middle East and Africa

Thanks Will. Good afternoon everybody. As Will said, what I'm going to do really is take the trends and strategies that Will talked about, and really relate them to Europe, Middle East and

Africa, which, as you can see, accounts for about 60% of our total international education sales worldwide. My major focus is really going to be on our Higher Education, ELT, School and Professional Publishing, although I think, as you'll see over the next 20 minutes or so, there's huge opportunities for us to grow by combining and working more closely together across our publishing and testing businesses.

If we'd been looking at this pie chart three years earlier in 2001, it would have told us a very different picture. First of all, the pie would have been much smaller. We had no Testing business outside the U.S. to speak of back in 2001. The School, Higher Ed and ELT slices would all have been much smaller, and those businesses have all been growing steadily since then. And the Professional Publishing slice would have been much bigger. Our Professional Publishing sales for the reasons that Will explained were twice as big in 2001 as they were in 2004.

So, these are our financial goals for EMA. We're aiming to build a mix of businesses that through the cycle can deliver to mid to high single digit sales growth, healthy margins and good cash conversion. We've been making good progress on all counts. We achieved sales growth of over 5% in 2004, and we expect to beat that rate of growth this year.

After recovering from the downturn in Computer Publishing, that I mentioned, we got our margins back up to over 9% last year, and we expect to get them into double digits this year, and then kick on into low to mid teens. And through the last few years, we've sustained 80% plus cash conversion, and we expect to be able to continue to do that going forward. That's a good target to set ourselves. It's a good discipline to have as we invest more in the business, but I think also it's a good performance given the well known challenges of cash collection in some of the markets in which we operate around the region.

And finally, we do actually look at our return on invested capital in Pearson right down to business unit level. It's something we track and measure, that we talk about both with senior management and with staff overall. We're shooting to get our return on invested capital in EMA back up to around or towards the 7% goal this year, and that next year we'll be earning a return on invested capital when it's in excess of Pearson's weighted average cost of capital. And that's an important additional discipline for us.

I'm going to skip through the four areas of activity that Will talked about, Schools, Professional, Higher Education and ELT, and talk a little more about the trends and the strategy. But just before I do that, let me just talk a little bit more about what we're doing to drive improved profitability and improvement in margins across EMA.

Focusing really on two key things; first of all, improving our gross margin. We've been driving up the gross margin by at least 1 percentage point per year over the last few years. And we're aiming to try and keep that going by, as Will said, sharing global platforms, content, best practise more across Pearson, and by publishing more for less more quickly. You'll see in a minute that we've got a huge amount of new product coming out, particularly in our ELT, English Language Teaching Publishing. And yet, although the ISBN count, the product count, is going up, our actual plant investment or pre-plant spend is actually staying constant. And that's because we are producing more for less, benchmarking some of the costs, for example, of the new student book for a programme that we're doing now. Of course, we're doing now for a comparable course of 3 or 4

years ago, our costs are actually between 25 to 50% lower, and our lead times twice as quick. So, we're doing more for less more quickly. We're getting more sophisticated in how we set prices and how we manage our distributed discounts and the like, and we're using our scale not just within Pearson Education, but with our colleagues across Penguin and Dorling Kindersley, particularly, to drive down our paper and printing costs by making more of our scale and we achieved something like £1 million of cost savings last year across Continental Europe, and we shooting for a similar saving in '05.

And then on overheads, as Will says, we worked really hard to streamline the management and organisation. We've taken out a whole layer of management which has reduced our overheads. We're centralising back office functions, not just within Pearson Ed, but across all our publishing activities, distribution, customer service, finance, IT. And we're also benchmarking key activities. A feature of what we'll talk about over the next few minutes is that we are investing more as we grow in areas like editorial, marketing and sales, but we keep a very tight watch to ensure that although our total overheads in those areas maybe going up, as a percentage of sales they're actually coming down.

So, let's now talk about our ELT business in Europe, Middle East and Africa. We reckon that the value, the total value, of this institutional market brings teacher materials across the region, is around about \$600 million. There are two main business models. One is an adoption model that you're familiar with from, say, U.S. Schools, but with a little bit of a twist, because our reps visit school teachers and persuade them to adopt our courses. And teachers then recommend the courses and the purchase is actually made by the parents. And that's the dominant model across Europe. In the Middle East it tends to be much more a Ministry of Education tender process. Enrolments, a mixed picture driven by the demographics, flat to declining in Europe, offset by strong growth in the Middle East. But across both Europe and the Middle, East four key trends that you see there. So, for example, in Spain, at primary schools students did not used to start to learn English until the age of eight. They now learn definitely by the age of six, and most of them by the age of four or five.

Central and Eastern Europe, a lot of primary school markets are currently closed to international publishers. We expect them to open to us over the next few years. At the secondary level in Poland, Hungary, Russia, it used to be the case that you would study English for, say, 2 or 3 hours a week. You will now study it for about 5 hours a week.

And across our adult and professional markets, one of our newest customers is the Vocational Training Board in Saudi Arabia. A huge challenge they have there in terms of vocational training because they're so dependent on an immigrant workforce at the moment, and they've made a big focus on improving their English language skills of their local population at a vocational level. And, of course, most multi-nationals, if you're a middle or senior manager in most multi-national corporations, ability to speak English is increasingly important.

And then across all three markets, increasing value of ELT qualifications. Two interesting trends in particular there to talk about. The Council of Europe has adopted something called the Common European Framework, which is attempting to standardise the teaching of English across the whole of Europe. And the increasing importance of something called your TOEC score, which is your Test of English Competence, and without that you will probably not get to study at a university in

the Middle East, because most of the teaching is done in English. And you certainly won't get to be a foreign student in America unless you get in a good score on your good TOEC score. So, qualification's becoming increasingly important.

In terms of our business, although Pearson is number one in ELT worldwide, we're actually number two in EMA with a market share of just over 20%. Our aim is to close the gap on OEP and be number one across the region. We're making good progress on that front. The market's growing at around 5%, and our sales are up 9 to 10% for three straight years. And with programmes like English Adventure, which you see here, we expect to sustain that momentum in '05 and beyond. I think what makes it - I know we've talked a little about English Adventure previously - I think what makes it truly distinctive is two things. Firstly, it's the first programme that combines the magic of Disney with the pedagogy and teacher support that you expect of Pearson Longman. So, if you imagine you're that Spanish teacher trying to engage 40 five year old kids in learning English, you've got to get their attention and motivate them before you've got a chance of teaching them English.

So, Disney hugely important in that respect, but it's also the first time we've approached a course like this as a truly global venture. So, we will produce within one year a global version of English Adventure, different versions for Spain, Poland, Italy and Greece. Later this year we will produce a version for Asia, for the start of the new academic year there. And we'll follow swiftly next year with an American English version for Latin America.

Visually, very similar programmes, that's deliberate because you want that great visual spark and dynamism from the design, but the changes are about the local curriculum and culture. So, nine level programmes for Spain, because that's what the curriculum demands, four levels for Poland, more grammar in Italy, more communication in Spain. That's the way that it tends to work. And we're not just doing that across English Adventure - with English Adventure, the programme you see on the left of the screen there. Sky is a new course for the upper primary, lower secondary from one of our best selling author teams, [Abs & Freyberg]. They published a programme called Snapshot, of which we've sold over £30 million worth since it was published back in 1997. Teachers love the combination of the academic rigour and the style of it, which very much appeals to teenagers. And again, that's another great example of a course that from scratch we've produced all levels for all markets, and lots of different versions simultaneously.

And there's two other major course that we launched this year. Total English, which is aimed at the higher secondary adult market, which is basically the first course that we've published that's fully focused on the common European framework. And there's some fantastic DVD and multi-media components, great use of real English, everything from the Ladykillers to Jamie Oliver and the like. And then, finally, our new collaboration with the Economist, Intelligent Business, which is launched for the business English market.

I think the second key point is that when we create these new franchises we build them to last. Even this year, with such a fantastic new line of the product, over 80% of our sales will actually come from backlist titles. When we approve new projects like this, we're looking for at least a 10:1 sales to plant ratio and we amortise the plant spend over 4 years. But actually, if we get it right and we aim to more often than not, these will last 10 years.

So, for example, three examples of that. I mentioned Snapshot. That was first published in '97. It was revised in 2001, and again 2003, and we're still selling over £4 million worth of it, and it's one of our ten top corpuses worldwide. New Parade, you see in the middle, that course was actually published in the early 90's. Its author is a cult figure in Latin America where it was first published. We've actually done a new version of that, which we've launched for the first time this year in the Middle East, which is doing great. And Opportunities, which is on the right there, we actually first published back in late 1990's as an upper secondary course for Spain, and what some 6 years later it's now our best selling corpus worldwide.

So, we aim to really maximise the lifetime value of the franchises we build. And I guess there's no better example of that than the Longman Dictionary. The first one of which, as you know, was published 280 years ago, which is really getting some lifetime value out of the franchise. But with all the global approach to publishing, it's also really important that we have very strong local management, again something that Will mentioned. That's important in two respects. First, they shape the product development. They know their markets, so they can make sure that we get the global and this versioning strategy absolutely right. And they own the sales forecast, so, again, really important that we build and have their support.

They lead highly competitive sales forces and that's what's enabling us to gain share across our markets, and they really drive the marketing effort. And at the same time, we do provide increased central resourcing and support for local management. We're extending our sales coverage. We are increasing our sales force by about 5% per year, although our sales yield per rep is actually increasing. We're sharing better sales management tools, better sharing of best practice and the like, and we're doing less promotion, and much more strategic marketing than we did previously. And then, finally, in ELT we're really using our expertise in assessment and technology to enrich all our big new ELT courses. And then examinations and qualifications is a big opportunity for Pearson. A combination of our expertise we have in qualifications from Edexcel and our knowledge of the ELT market from Longman. It gives us an opportunity to enter that market and really grow our share. So, that's ELT.

Moving very quickly on to Higher Ed, I won't spend as long on this, because I think it's a market that you know very well from the U.S. Again, market value across the region of about \$600 million split evenly between English language and foreign language sales. Just two trends here I'd pick out. On harmonisation, the Council of Europe have also adopted something called the Bologna Accord, which has led to the standardisation of the length and nature of university degrees and qualifications across Europe.

And secondly, this demand for local and customised content. I was visiting the Dean of the Business School of University of Sharjha in United Arab Emirates the other week, and he was talking about our organisational management text books, and saying all our case studies are about public limited companies with investors and shareholders, and the like. And the dominant business model in the Middle East is privately held, family owned businesses, and therefore his students are mostly going to work in those sorts of organisations, so what about case studies that meet that need. And that's a good example of how this greater desire for customisation and versioning is driving our international business worldwide.

So, what's our strategy? First of all, you're very familiar from what Will's said, and from previous presentations that we've done, we've brands such as Campbell's Biology and Kotler's Marketing and lots of other major U.S. titles. Half of our higher education sales across the region come from selling U.S. originated and U.S. original products. And we win adoptions and we drive sell through across the region, just as we do in the U.S.

But then we also do adapt, customise, and publish for local needs. And I thought we'd just take marketing as a bit of a case study here. So, you have, on the left, the original U.S. edition of *Principles of Marketing* - one of our very best selling textbooks, the U.S. edition, across the region. Then you have the European adaptation of that very same book, more European case studies, different end of chapter questions, and the like. Next you have a custom version of the Kotler original, which in this case, I think was done for the Lyngby Business Academy in Denmark. But we do plenty of other customised products like that.

Then we have a series of local language translations into German, Spanish, Italian, Dutch, French that we either publish ourselves or license to third parties. And then to really fill out our offering, we have our very own home produced marketing franchise in Brassington and Pettitt. The green one is the main principles book, and then because a lot of students now study marketing for half a year rather than a full year, we do a slimmed down version of it. And having that product range really means that across Europe with something like 300,000 students a year studying principles of marketing, we can maximise our share of the market.

And what we're now looking to do is to take the 40 leading introductory courses across Europe, they're mostly first to second year undergraduate with large numbers of students and apply exactly the same strategy across the region.

Technology is also a key competitive advantage for Pearson in EMA as it is in the U.S. The quality and depth of resources that we have provide us with a competitive advantage, as I say, that few of our international, let alone our local competitors, can match. This is an example of My Anatomy and Physiology product. I was out with one of our sales reps at Leeds University the other week, when she was demo-ing this product to the Head of Nursing Studies Department, and I won't go into the detail of it, but this just gives you a little idea.

So, you have the human body that you can rotate and literally view from any angle. It changes depending on which one of the 10 different bodily systems you want to look at, whether it's skeletal, muscular, nervous, cardiovascular or whatever, and the idea is it will ask you to identify on the body a particular, in this case a, I'm sure you all knew this, this was a muscular appendicular part of the body, bicep brachii. So, you swirl over and when you get it right the green phasing then comes up. And then it asks you to give it the correct medical terminology. And then you click on the animation and it shows you what that particular muscle does. And it literally does that for every single part of the human body.

And just the power of that, you can imagine the investment that's gone into that, but very few of our competitors can provide that support for text books. So, it's a fantastic competitive advantage for us. And you'll be pleased to know I'm not going to move on to try and explain what the coracobrachialis is.

And then fourthly in Higher Education, we're targeting both faster growing markets like psychology, law education where student involvements are growing, and we're also moving more into vocational publishing. These lime green flip flops, I hope you can see, on the beach is the front cover of a text book that we've done to support the B-Tech Higher National in Travel and Tourism Management. This is Pearson Education owned content that we've customised and bundled with an Edexcel B-Tech registration.

It enables Edexcel to achieve a higher registration fee for the course. And it delivers better value for the student as well, because for the first time it gives them some real content to go with the qualification to help them get a better mark on it.

And then, finally, as in ELT, and I think Will talked about this, we're really getting much more rigorous in rolling out the Pearson Way to publishing sales and market. It's not by accident that we're the number one higher education company in the U.S. We've got very clear proven ways of doing our rep calling, our sampling, our adoption tracking and the like, and we're really driving those systems, and processes, and procedures in our sales force right across the region.

So that's higher education. Professional – again Will talked about this. The IT industry, as you know, is pretty stagnant. There's very few new software developments at the moment. Major corporations have a pretty tight grip on their spending, which means fewer IT professionals with less need to buy new higher end books. But what we describe as digital lifestyles – digital cameras, Photoshop, iPods, computer games, like Grand Theft Auto and to how you can get the best possible score on that. Those markets are buoyant and, likewise, there is a growing interest in management and personal development across Europe, as in the US, as Will was mentioning when he was talking about the [Walton Press].

So our strategy here has been just as Will described. We've used our scale to withstand the worst of the IT downturn. We have stopped doing any local computer publishing in the UK whatsoever. All the focus is on maximising sales of our US products at both the higher end and the digital lifestyles market. What we then do in our non-English language markets again, we scale back, but we still focus on doing adaptations, both of the very best high end professional books, and those digital lifestyle books that we know will do well.

Just to give you a very small example of that, there's what looks like an iPod at the front there. That is actually a book, in the shape of an iPod. The original content came from Peachpit Press, our Company out on the West Coast in the US. It was adapted by a local author for the Dutch market. We teamed up with Apple to sell it in the Apple store in Amsterdam. You can get it in any one of 10 different colours – the cover – and we're now looking to adapt it for the markets across Europe. So it just gives you an example of how we're trying to use our scale across our computer publishing, and exactly the same principle in our business management development and related publishing. So, for example, you take the Dorling Kindersley Earth book, rather than licensing it to a third party, we translate it ourselves and use our marketing and sales infrastructure in Spain to maximise sales of it. So, that's professional.

Moving on to schools. Middle East and Africa and UK stores are really two pretty distinct markets. Big growth in enrolments throughout Africa and the Middle East. South Africa has a total population smaller than the UK, but its school age population is twice the size. Ghana, that Will

mentioned, has a total population of 20 million people, of which 37% are under the age of 14. And Saudi Arabia, a rather wealthier country than Ghana, the wealthiest country in the Gulf, but interestingly, a slightly larger population – 26 million – and a similar proportion – 38% - under the age of 14. So huge opportunities there for us in growing enrolments there. With those growing enrolments comes the prospect of increased funding. The Commission for Africa, which will be the focus in part of the G8 Summit over the next few days, recommends an extra \$8bn a year in funding for education, some of which – clearly the actual amount may be less than that – but some of the increased funding, you would expect, would make its way through to text book purchases, and a big move towards curriculum change across the region as well.

And then, rather closer to home, here in the UK, the textbook and publishing market in the UK is probably valued at around £200 million. Half as much again is spent on qualifications and testing in the UK. Key characteristic is there is some curriculum change, but what is really driving change in the UK, is the drive towards technology. 70% of UK primary schools now have at least 1 whiteboard. A third of total spending on educational curriculum rates and materials in UK primary schools this year will be on software and technology. So, in some ways, the UK is very much leading the world in terms of its adoption of technology in schools. And then the whole drive to modernisation, both of school performance, and of the examination system itself. So, what's our strategy? Well, first of all looking internationally, we have the market leading businesses as joint ventures in the biggest countries in both Africa and the Middle East. So, we have, with our partner, in Maskey Millar Longman, we have a 28% share of the total schools publishing market in South Africa. And in Egypt, we have a 90% share of the ELT publishing market there. And what we're trying to do now, and with some success, as I think the Ghana order shows, is using that regional strength and knowledge to really expand throughout both regions. In the Middle East we now have all the major Ministry of Education tenders for ELT Publishing, and we're looking, as you can see on the left there, we have done language versions of our Scott Forsman Maths & Science. They're the basis of the programme, although there has been significant adaptation to meet the specific needs of the region, and we're looking to really try and win maths and science business throughout the Middle East as well. And then in Africa, we see opportunities to do in Botswana, Mozambique, Uganda, Nigeria, and other countries, to build on the success that we've had in Ghana and South Africa.

And then, two other things that we're doing really, I think, in the region and the last one I think is the most interesting. I think that South Africa is probably the best case to do this. Big investment in spending on publishing and teaching over the last few years, and they're now coming to see the wisdom of the old maxim that what gets tested, gets taught. And so I think on the back of our publishing presence in the regions, we can then expand our testing and assessment and qualification businesses as well.

And then, finally in UK schools, our strategy. Three years' ago we were barely in the UK schools market. Now we own one of the three leading qualification bodies in the UK. We do most of the Key Stage testing contracts for the UK government, and we now also have a 10% share of the UK publishing and software market. And our strategy is to be first to market for curriculum change, and you see 3 examples of that here. The one in the top right, Digitexts Interactive Reading, which you've got a copy of. Interactive reading, or non-linear reading, is the whole idea that learning to read, online and on-screen, is different from reading a book. In a book you start on page 1 and you work your way through in an orderly way. On a screen you go non-sequentially. So you go there

and then you come back, and then you go on somewhere else. Trying to teach that to children in a visually, interesting, dynamic, exciting way is hard going. We think we've succeeded with Digitexts, and more significantly perhaps, we're the very first people to market with a product to meet that need. And from September, every primary school in the UK has to teach that skill for at least an hour a week.

Secondly, we've really tried to respond very quickly to the market, to the investment and technology that's been made, and so we've gone digital. We have a 20% share of the primary digital market in the UK. KnowledgeBox, which you see there, we launched it just over a year ago, getting on for 18 months now. We're now in 1,500 schools. We expect to be in over 2,000 by the end of the year. And it's a good example of what Will was talking about, the global and local, because the platform, the technology platform on which KnowledgeBox sits is a global platform. It was developed in conjunction with our colleagues in the US, but the content is completely local and is absolutely directly linked to the UK national curriculum is very different from the content you would see on the US version.

We are really using our technology to modernise systems and processes. Will talked about the on-screen marking, which makes the whole process more efficient, secure and reliable – hugely important to the government and the QCA. Ken Boston, the Chief Executive of the QCA, I think described the UK examinations system as a cottage industry. So we're bringing Pearson technology to bear. But I think, actually, what's going to be very interesting for us over the next few years is I think we'll find, that although a lot of the focus on Pearson's acquisition on Edexcel, was on the back end and the processing end, what we're learning is we're getting huge value from the intellectual property and experiences that Edexcel brings, in terms of their understanding of curriculum development assessments for learning and the like. And that brings me onto the final point, is that I think in our UK Schools business what's so exciting, is that the mix that we have, the content, the technology, the processes, the qualifications and curriculum expertise, means that we're probably in a better place to make that teach and learn cycle that Pearson's been talking about for some years now a reality here than pretty much in any market in the world.

And what's interesting is that one of our key challenges has been to recruit new talent into our UK Schools business, and we've had a lot of success with that from our competitors over the last few months. One of the reasons people want to come and work with us is because they see that we're really leading this drive and this transformation.

So that's a quick look at EMA, and I will now hand back to Will.

Will Ethridge

President, Higher Education and International

Before we wrap up, let me just touch on some of our operational competitive advantages. First, I want to point out we have a really efficient global supply chain, and we've been working really hard over the last several years to pull together all these operations around the world. And really, that supply chain works in three areas. First, shared services – if you went back five years ago, a lot of these companies were running independently. They had their own little infrastructure. We

basically said to the country heads your job is to be the top sales and marketing person, to understand that market. We'll handle systems, we'll handle purchasing and all that. So we've really centralised all that. It's had two benefits. Our local managers are focused on customers. We've gotten great scale.

Secondly, we worked very, very hard to come up with a common contact management platform. Again, that is driving cost savings, and is allowing us to do the versioning that John's been talking about.

And third, all this means we have great global purchasing power, and we're really operating production, for example, truly globally. That we will do the production, not necessarily in the country of origin, but where we can do it fastest and at the lowest cost. So, it's really much more the project management that's done, let's say, in the US or in the UK, but the art might be done in Asia or Mexico. Some of the composition could be done in India, and we've really worked out the systems to do that. It means we can get to market faster, and it means that we're lowering our costs.

Putting it in numbers, we've really increased the value we're bringing to the customer. We're producing more products. We're producing better products, higher quality art, technology and yet, our overall plant spending is growing slower than sales, and that's because of this really efficient global supply chain. And that's why we can improve our margins, and yet grab more share. It's a big structural advantage, financially, for Pearson, and it's also a big market advantage, in that, we can provide the service. Technology, for example, you have to be reliable. This stuff can't crash when it's central to the teaching. So, we have both a cost advantage, and a market share advantage.

And we also have an advantage in terms of our investments. We can really concentrate investment on the best opportunities. As I said, we're very big. We're also very focused. We really don't want to go into a market unless we have more sales reps, unless we can publish better products. And we are concentrating on the best opportunities. What we've done over the last two or three years is really focus around ELT, Higher Ed and selective School Publishing, and really cut back all the marginal endeavours. And also, although it's not really in our numbers right now and we're not depending upon it in any way, we will do bolt-on acquisitions where we can leverage our infrastructure, where we can apply our capabilities and bring more value to acquired assets.

So, summing up, I'd just like to leave you with a couple of thoughts. First, I hope you recognise that we are the leader, and we're the leader in all the market segments, and we do have a cohesive business. It's not just a lot of small companies around the world, it's a power house in higher education, it's a power house in ELT and it's a power house in selected school markets, where we apply content plus technology.

Second, the trends really play to Pearson's strengths. And third, our combination of innovation, scale, the talent we can attract to the Company is driving very strong financial performance. And what does that mean in the numbers? In 2004 our business, as Marjorie said, was \$1.2bn. So, if we look forward, we see this business growing in the mid to high single digit range over the next several years. The overall market growing at 5%, we think we'll grow a couple of points better than that. In terms of profits, we see consistent annual double digit growth in profits, and we see excellent improvement in our margin. So that's our international business. I hope you have a better sense of its shape, and the prospects ahead for Pearson.

And now Marjorie and John and I will be happy to take questions.

Question and Answer Session

Marjorie Scardino

Just before we do take questions, I just can't emphasise enough what a great job Will Ethridge and John Fallon have done in their respective parts. They are real stars in Pearson and I hope that you see now what kind of power they bring to our business. Why don't you ask them any tough questions you can come up with? But maybe we could have some lights. It's slightly dark and dim. I can do this I think.

Polo Tang, UBS Warburg

Hi, it's Polo Tang from UBS. I just have a question, actually, just on the higher education books, because you mentioned in the presentation that half the books in the international business in Higher Education come from US text books. Can you tell me if there is any significant difference in pricing, let's say, between a copy that's sold in the US, and a book that's sold in Asia, for example?

And also, just following on from that question, has there been any significant instances whereby, let's say, US college stores or students are actually buying the international edition of a US text book to actually try and somehow get a cheaper book?

Will Ethridge

That's a great question. John had a slide that showed; I think it was marketing that showed the range of products from the US book as is, to an adaptation, to a custom, to local. So, when we're selling the US book as is, we generally want to make sure that the price is either similar to the US price, or no more than 25% discount off the price. It will depend by country. We have the guidelines. And if we can't sell the exact same version as is, at a price that would pretty much limit international arbitrage because of the cost, then we'll do the adaptation, we'll do custom or we'll do a sale where we know we have enough limitations when we're selling it that won't go back.

When we do locals you really need to compete on a low price. Again, the fact that we have a global content management system means that we can do these versionings at very low cost, in a very timely way. John, anything you'd like to add to that?

John Fallon

No, I think that's absolutely right. A good example of that would be, across EMA, most of our sales, it would be into the UK and Scandinavia of US editions, and that would be at 70%, 75%, 80% of the US price, which doesn't when you allow for transport costs, doesn't really leave much room for arbitrage. Where we would sell US editions at a lower price, it would be to somebody like UNESCO, where they've got a major order for the re-stocking of libraries in Iraq, and we have very strong confidence and very secure means of knowing that the books are going where the customer says they are going, and aren't being used for parallel infiltration.

And then I think the third point was that I was talking about with the Dean of the Business School at Sharjah University. There's actually now much more demand for versioning, so we can actually

customise much more. So, what is the US edition is becoming much harder for people to understand, because of the degree of customisation that we do.

Polo Tang, UBS Warburg

So, just to clarify, just from this arbitrage there's been no impact on this US college business?

Will Ethridge

Yes, I can answer that. I would say that a few years ago there was impact, and greater impact than now. And there still is impact. You don't do this overnight. One of the reasons we decided to align the US Higher Education Group with the International Group was to deal with the international arbitrage this year. So there is impact, you're not going to clearly stop it, but we have much better control over it.

The other thing that's happening in the US, our product lines, especially in some of the big introductory courses, are moving more to a digital business model. We're going to start to see more of a business model subscription based, where the book is really secondary – a bit more of a workbook, more of a consumable. So we have that trend that the US is farther down the road in terms of really moving to digital. That helps the arbitrage. So, it's a problem, but it's a problem that we have our arms around, and we think going forward that it will get better rather than worse.

Polo Tang, UBS Warburg

Thanks.

Marjorie Scardino

[Indiscernible] I think may be a little hard to hear in the back for the microphone.

Unidentified Participant

Good afternoon everybody. Can you please comment on the difference that may be in the Higher Education text books industry, between the US and international market, and especially the European and Middle East one, regarding the used book markets and, particularly, whether you think there may be a time lag between growth of the used book market in Europe, and then the decline in the sell through rate, which I think has been an issue on the US market, or whether these are completely different markets and you don't expect sell through to decline like in the US?

John Fallon

I think that's a good question. I mean, traditionally, we have not had a used book market in the UK. Blackwells do it a little bit, but Waterstones have not been in the used book market in the way that, say, the college book stores are. It has become more of an issue in recent years, because of the internet, but it's still much less of an issue in the UK and Europe than it is in the US. And I think the key issue for us is really doing a lot more versioning, adaptation, use of technology to really drive sell through. And that's actually a good example of how we're sharing Pearson best practice. Two years ago, I think the US really did first day at class. They really did a huge initiative to drive first day of class, which is basically where you go in on the first day of class and you actually, with the Professor, demo the technology, so that the student really gets a great idea that life's going to be much easier to pass this course if I buy the new text book and get access to the website.

We did that. We started to do that in the UK last year, and this year it's up front and central and right at the heart of our plans, and we have a record First Day in Class campaign planned for the first day. So, I wouldn't pretend it's not an issue at all. It's become more of an issue because of the internet. One we are very focused on and we're able to learn from the lessons and best practices of

our colleagues in the US to try and nip it in the bud, so to speak, and really drive sell through of new titles using technology and assessment.

Will Ethridge

All I'd add to that is, the issue of students becoming consumers and trying to get low prices is a big issue, and it's certainly putting pressure on the US short term. But it's putting pressure on the competitors, and they don't have the same tools that we do – the real move the digital and the versioning international. So, while the short term is an issue, we think actually, longer term, it's going to enable us to break away from the pack, because I think our competitors are going to have trouble dealing with this, and they are going to have trouble dealing with it in Europe as well.

Marjorie Scardino

I think it's also important to mention that used book sales have not actually been growing. Everybody thought they would be on an upward trajectory, and they're pretty flat in the US. So, it's becoming less of a problem as technology becomes more imported.

Unidentified Participant

Could you please give us numbers in terms of average sell through rates across the business in the US versus Europe if that's relevant?

Will Ethridge

I don't have the figures compared to Europe. I'd just be guessing and I'd rather not guess. But John, maybe you have --

John Fallon

Well, traditionally, sell through rates in Europe, particularly in the UK, have been lower than in the US, but that's nothing to do with the second-hand book market. That's because, traditionally, so that academics would more have a recommended list, rather than actually have one text book through which they would really teach the course. As the participation rate in higher education grows, and most of the growth is in the newer universities, and they're actually becoming much more dependent on part-time lecturers. It's actually becoming an easier sell in the utility of the text books. So the trend, in one sense, is working for us in terms of making the text book more central to the course. So that's a countervailing trend to the other one we were talking about.

Unidentified Participant

Thank you.

Marjorie Scardino

Other questions. Patrick?

Patrick Wellington, Morgan Stanley

Can I just ask a question about structure of these numbers, as they are reported with Pearson. You've got \$1.2bn of sales here. Do they all sit in the Schools business, as reported, or do they sit across Schools, Higher Education and Professional?

Marjorie Scardino

They sit across Schools, Higher Education and Professional.

Patrick Wellington, Morgan Stanley

How do you manage it? Who is in charge of the numbers in each area?

Marjorie Scardino

The US Schools business is run by Steve Dowling. You've all met him. He was here at our results last time. The International business and the Higher Education and Professional businesses are all run by Will Ethridge. I'm sorry, I misspeak a little bit, because there is one International Testing business, which is the View business, and the one that has the UK driving licence, the one that has the GMAT, that is our International Professional Testing. And that runs separately, reports directly to me, partly because it's here... it's centred here. But, otherwise, everything else, I think, is with Will.

Patrick Wellington, Morgan Stanley

It seems a kind of matrix approach. I mean, International kind of sits --

Marjorie Scardino

Actually, no. I mean, everything in International, but for that Testing business reports to Will.

Will Ethridge

Basically everything, except US School reports to me and so what we do is we have International School reported because it benefits the infrastructure we have of Higher Ed and ELT. So, you have the global business of Higher Education and you have the global business of ELT and then, as I said, the School Publishing outside the US we look at it in a very selected way and where it makes sense we are in those markets.

Patrick Wellington, Morgan Stanley

So, who's responsible for delivering the Professional profit, as is reported by Pearson?

Marjorie Scardino

In the International number, the Professional business is around about, in sales terms, 10%, and that includes technology publishing, that has been the largest share of that, and it includes the Professional Testing business I talked about. So, Will is responsible for all the Professional business, but that Testing business which sits here.

Patrick Wellington, Morgan Stanley

Okay. And, do you want to give us an idea of the margins because, again, if you look at the Schools business and all these businesses are in the Schools businesses reported by Pearson, you had a 10.5% margin. We all know that Basel does about 16-18%. We presume that US Testing does about 15%. So, somewhere in that Schools number, some of these businesses are contributing a much lower margin. I didn't spot which one it was on the way through. But if you look at your

page which outlines the various elements, this would be a wonderful opportunity for you to give us a rough margin on each of them. It's half way in.

Marjorie Scardino

Well, overall in the International Education business, we got high single digit margins. We're aiming, over time, to get to the mid-teens, and we think we're going to be able to do that. But, when you've got a lot of different countries, with a lot of different economic situations, then you do have some flux. But we think we ought to be able to get to mid-teens over time.

Patrick Wellington, Morgan Stanley

I mean, in places like South Africa and Ghana, can you really expect to have a 15% margin in a Schools Publishing business there, or is it always going to be...?

John Fallon

Yes, our joint venture in South Africa, is one of our most profitable businesses. I think the mix of margins in School Publishing, certainly from EMA, are actually the International Schools businesses are making good margins. UK School Publishing – because if you remember, we were virtually out of that market three years ago – we've been in investment mode, so it is making a contribution to our fixed costs, but on a fully loaded basis. It's got a little way to go. It will get to break even by next year and then make decent margins thereafter. And then it is right to say that in our UK School Testing business, we've been making some big investments in terms of introducing the ePEN technology and modernising. We're through the investment phase there now, and so it's a swing in UK School Publishing plus, more significantly, the growth in testing now we've made that core investment, which is one of the things that will drive that margin growth, and probably explains why you've got that lower margin in Schools internationally at the moment.

Marjorie Scardino

Yes, the UK Testing business has had good top line growth, very fast top line growth and, as John says, we've been investing in testing centres and everything else, and we're ready to now see that come through.

Patrick Wellington, Morgan Stanley

It's actually very easy. It's on page 2. I've missed it there. If we look at these -

Marjorie Scardino

We didn't mean to make it easy. I don't know how that happened...

Patrick Wellington, Morgan Stanley

So, in School Publishing, you might want to give us a number, above or below average. But School Publishing is doing 218, we see that later in the document.

Marjorie Scardino

No, I don't think that you've got that right Patrick. Where are you?

Patrick Wellington, Morgan Stanley

I'm on page 2. Where you've got 2004 sales, \$1.2bn.

Marjorie Scardino

Yes, but that doesn't count the English Language Speaking business, which is pretty big. So the ELT business will be a little bit bigger than that again.

Patrick Wellington, Morgan Stanley

Well, ELT is \$287m, according to your numbers. School Publishing is \$218m. Higher Education is \$300m. Professional is \$201m, and by a process of elimination, School Testing is about \$200m. These all appear later in the book, except for School Testing. Do you want to give us an idea of the rough size?

Marjorie Scardino

Why don't we take this off afterwards, because I don't know where you're getting these numbers, and it's taking everybody else's question time?

Patrick Wellington, Morgan Stanley

Well they appear later in the presentation.

Unidentified Participant

This is useful – very useful....

Marjorie Scardino

Okay, good. Tell me where you are, so we can --

Patrick Wellington, Morgan Stanley

Okay. We're on page 2. It says 2004 sales \$1.2bn. If you go later into your presentation, each of the areas are then separately identified. So when you go onto Pearson, 'Our Business', they're not numbered, these sides. But Higher Education, it says it's \$300m, ELT is \$287m, School Publishing is \$218m and the last one, which is separately identified is Professional at \$201m. There isn't a number for School Testing, but by elimination it must be \$200m.

Marjorie Scardino

Yes. I think what you're missing there is that you don't have the Professional Testing in there, is that right? So that's why the School Publishing looks low.

John Fallon

I think we've just given it. The ELT and Higher Education businesses, they are already delivering the sort of healthy margins that we're aiming for overall. The Professional Publishing will be earning lower margins than that, because of the downturn and the fact that this is more of a trade publishing type business. And then across School, you've got two different things going on. You've got good margins, of the sort we are aspiring to overall in our publishing businesses outside

the UK. And then in the UK, I think we said because we are in investment mode, we are making very little profit at the moment, but would expect to grow rapidly thereafter. And I think if you do the maths, that --

Patrick Wellington, Morgan Stanley

But we know what Edexcel used to make when it was brought, so we know that's sub-par as well.

John Fallon

So, I think that helps you.

Marjorie Scardino

You remember that Edexcel is also the BTech business as well, so that's the skills certification business as well as the School "A" Levels and GCSEs. Okay. Everybody clear on that? Next. Meg?

Unidentified Participant

If I can continue a little bit on the numbers, the sales growth was 6-7% for this Group as a whole. Can you give us some colour, geographically? It sounds like the UK might be quite good, and certainly I would expect Latin America, Asia, Canada. Can you give me a rough idea how that 6-7% varies by region?

Will Ethridge

Yes, I don't want to give exact by region, but in Europe we expect good growth, because of our investments, because of the changes we've made. We expect very good growth in Latin America – double digit growth in Latin America. Canada, we have a big base. We were tied to the overall growth rates. The growth will be lower in Canada, but we have nice margins in Canada. And Asia – parts of that will grow well, other parts... we have a very big share in Hong Kong, and the demographics are for slow growth there, but strong growth in Asia. So really, pretty much strong growth except Canada, which will be below that range.

Marjorie Scardino

Anything else? Yes, right there.

Unidentified Participant

Just coming back to the geography of Education, just to fill in a gap in my knowledge actually. Who are the main owners of the local language education assets in continental Europe, and what ambitions might be you have there?

Marjorie Scardino

Can you hear? I can't hear him so.

Will Ethridge

Who owns in Europe –

Unidentified Participant

Local language education assets in western and eastern Europe.

Will Ethridge

Yes. John, do you want to take that?

John Fallon

Yes. The school and higher education publishing markets in France, Germany, are very much dominated by the local players in those markets. So the Lagardere and Havas in France and the similar companies that you would expect in Germany, Santiana in Spain. Our strategies that we're outlining here is very much an organic growth strategy, which comes from ELT Publishing, which tends to be very much a specialist market, much more dominated by "foreign" publishers such as ourselves, OUP, Cambridge, McMillan.

And then in higher education, a lot of the best selling text books in higher education markets are actually Pearson originated intellectual property, or Pearson authors that, traditionally, we have licensed to third parties. And so there's actually quite a nice pop we can get over the next few years in our non-English language, higher education markets, simply by publishing ourselves and using our own sales and marketing infrastructure, rather than licensing to third parties. So I think that gives you a sense of who our competitors are across the different markets.

Will Ethridge

I would just add one thing. If you went back 20 years ago in the US, there were about 30 US publishers, and now there are three that count and about five overall. And what happened is that starting around 20 years ago, the landscape changed, and you had to really invest in technology and you had to really invest in selling and marketing. If you buy the premise that US-style education has come to Europe, that the text book, instead of being the recommended background reading, becomes more central; if you buy the premise of the democratisation of higher education, and more people than normal who did not go to college, will go to college, and in those areas that tend to rely more on the text book and tutorials, you will then see the same phenomenon that technology will become more important. Selling and marketing become more important. And while it is not in our numbers, there is some upside if you see the consolidation. The same thing that happened in the US what happened in Europe, would be a very good story for Pearson. And we think the trends are that it could happen, but we're not basing our investments and our numbers on that.

Marjorie Scardino

Okay. Meg?

Unidentified Participant

Can you just describe a little bit to the difference between US higher education compared to Europe and other parts of the world, in terms of how much is funded by the government versus by private individuals, and does that have to change in Europe or in Asia? Do you expect changes in that, or do you expect to see the same kind of growth without a change in how much individuals pay for their education versus governments paying for higher education? Because we've had tuition top up fees etc here in the UK.

Will Ethridge

It depends by government. I think in China, for example, they're going to pay, and they're going to provide those funds. And then with the one child policy, you also have parents, grandparents are the ones that really want their children to get ahead. It's ironic, it's a low priced market I think, actually, in terms of people willing to pay, they'll pay. The governments will pay and the prices will go up. And then I think in Europe it really depends. And I think governments around the world – one parliament is saying; “Yes it's really important we've got to fund it”, and then there are budget pressures. But you will have to look at it, really by country. John.

John Fallon

The UK is clearly becoming more like the US in there's the creeping privatisation of the higher education system in the sense of top up fees, student loans and the like. And just like in the US, students are acting more like consumers,. So they will buy the text book if they believe it's going to be central to the teaching of the course and is going to help them pass the course. Because they've invested more in their education, they want to be sure that they're going to come out the other end with the qualification.

I think that trend is less developed across parts of continental Europe. In a lot of continental Europe, you look at the text books they are much more two colour, much less, well structured, no sense of end of chapter questions, let alone the real introduction of technology. So there, there is a different opportunity for us, and I think there you are actually going to see, as I think Will said in the presentation, the emergence of more of the US model of text book publishing, which is where the UK was 20 years ago, and now the UK is much more like the US, in terms of the type of text books. I think you're likely to see that trend more across continental Europe as well.

Marjorie Scardino

But do remember that, as we've established, the School business is a larger business, and it is not so much like America, where the central government is not a big participant – 7% or so. Most of those are central curriculums for the countries and the countries pay. So you are not looking at tax receipts in the same way. And an increasing amount of GDP for countries is going to education, particularly in the developing world, in places like Africa, in places like the former Eastern Europe. So that really is driving our growth as they go up in expenditure.

Unidentified Participant

I just have two quick questions. One was for John. I think there is a UK supplemental education business, which is pretty widely rumoured to be on the block. So I was just wondering what your thoughts were on bolt-ons within the UK business.

And then the second was just on the economic assumptions you've made behind the mid to high single digit revenue growth figures. If you look back at the International Education business in the past, it obviously has been impacted by things like the Asian currency crisis, the crisis in South America and so on. So, is this the sort of assumption that, as long as things continue reasonably well globally, that that's the sort of growth we should expect with a caveat that if we get more emerging market crises, which seem to come along occasionally, that that could affect the overall growth rate? Or do you think perhaps you're immune from that now?

Marjorie Scardino

Do you want to answer, or shall I?

John Fallon

I think we clearly, in terms of bolt on acquisition opportunities, whether in UK schools or anywhere else, we look at them as they come along. I think everyone knows the very clear financial disciplines and criteria that Pearson is working to. So, if it makes strategic sense, and if it can deliver a pay-back of within five years, an IRR of at least 15%, and hopefully quite a bit higher than that, then we will look at it, and if we think it makes sense, we'll do it. But, obviously, I'm not going to comment specifically on any particular one acquisition. Will, do you want to take the next one?

Will Ethridge

Bad things do happen somewhere in the world, and especially in Latin America and in Asia I have applied a discount factor to the numbers. So the numbers that roll up from the units would be higher. You don't know where that's going to happen, but it does tend to happen somewhere. I would say though, especially in Latin America where we've during the past had very strong management that are very good at risk management, and so I think we're better protected for those things. But we're not expecting that everything goes perfectly. I have applied a discount factor.

Marjorie Scardino

I think we've appropriately risk rated our forecast. Something bad happens and something kind of good happens at the same time, usually. So, we think we're pretty solid on this. Anything else? Thank you all very much for coming. Please have a drink with us outside and collect your books.

John Fallon

I've got a colleague of mine, Chris, to stay behind in case your interested in either KnowledgeBox or anything else. So, when you've got a drink, if you want to ask her to give you a little demo, honestly it's quite exciting.

Marjorie Scardino

And you really ought to look at this Fergal Fly thing because it's pretty cool.